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**Implementing Texas'
transportation needs
of the new century**

*John W. Johnson
Commissioner of Transportation
Texas Department of Transportation*

Translating Traffic Woes To Traffic Goes: The View From Here

Traffic congestion is a fact of life for many Texas drivers, and regardless of whether air travel continues to improve, increased demands will be placed on roads already carrying too many automobiles and trucks. The last decade has seen explosive population growth, which has put tremendous strains on the roadway system, an invaluable infrastructure. Dr. Steven Murdock, state demographer based at the Center for Demographic and Socioeconomic Research and Education at Texas A&M University, states that Texas has experienced the heaviest growth in populous urban areas and in regions along the Texas-Mexico border. These realities impact the transportation needs of a state population growing by approximately 30,000 people per month. This includes a parallel explosion in the amount of truck traffic brought about by the economic success of the North American Free Trade Agreement (NAFTA) since 1994, an increase of more than 150 percent in truck traffic, or 16 percent of total traffic, according to *Tierra Grande*.¹

Air quality is as significant an impediment to future construction projects as are financial constraints or unparalleled growth. Four Texas metropolitan areas (Houston-Galveston, Dallas-Fort Worth, El Paso, Beaumont-Port Arthur) have difficulty meeting national air quality standards. When standards in air quality are breached, or "transportation conformity lapses" occur, and before projects can move forward toward completion, the Federal Highway Administration (FHWA) must declare that new transportation plans conform to air quality standards before funds can be awarded.

Over the last seven years, vehicle miles traveled in Texas have increased at a rate of 4.1 percent annually, 16 times faster than new lane miles could be added. Texas is second only to California in daily vehicle miles traveled on the state system, first in rural lane-miles of road and rural daily vehicle miles traveled, and first in number of urban lane-miles, yet the state ranks 47th among the states in state highway expenditures per capita.

The vast network of roads, ranging from the clover-leafed interstates to farm-to-market byways, is part of a transportation infrastructure that contributes to the economic growth of the state. In 2001 dollars, this stimulus translated into \$61.7 billion in aggregate spending and \$28.9 billion in gross state product, according to a recent Perryman Report.² But maintaining and upgrading roads is expensive and legislators may be hard pressed to find the dollars needed whether forecasts of federal funding are on target or not.

Responding to statements about the need for increased and innovative funding for highways, Lieutenant Governor Ratliff expressed caution: "It's going to be tough. It will not be an easy

session as far as additional spending programs, whether for schools, highways, nursing homes, Medicaid, or college excellence funds." House Speaker Laney concurred, saying, "There will be a lot of promises made by legislators to deliver every service they can, and I'll guarantee you they won't go for a tax bill."

Those legislators, including Senators Shapiro, Lucio, and others, who sponsored the creation of the Texas Mobility Fund (Mobility Fund) and other bills extending financing for roads for colonias expressed optimism that members of the 78th Legislature would find ways to finance the Mobility Fund; others, as stated, are not as sanguine.

Governor Perry has vigorously and extensively campaigned for the Mobility Fund proposition. The governor is expected to support those seeking an initial allocation for the Mobility Fund in the upcoming session. In addition, Perry put forward his own "Texas-sized transportation plan," as the Dallas Morning News described the Trans Texas Corridor.³ The plan, described as "big and bold," envisions the construction of 4,000 miles of interconnected transportation corridors with rail lines for passengers and cargo between the urban megacities. The corridors would incorporate parallel utility and rail lines, something Commissioner of Agriculture Combs supports, saying this flexibility and accessibility would link residents in rural Texas to both urban areas and the Internet.

This "new concept in transportation" was approved by the Texas Transportation Commission (TTC) in a 95-page report released by the Texas Department of Transportation (TxDOT) at the end of June. The 4,000-mile multi-use system will include corridors up to 1,200 feet wide with separate lanes for passenger vehicle, trucks, rail, as well as a dedicated utility zone to include water, electricity, and data lines, and petroleum pipelines. Four routes, only conceptual at this point, are designated as priority corridor segments. Estimated costs for this transportation project run from \$145.2 billion to \$183.5 billion. The planners foresee financing the project with a mixture of public and private funds, such as tolls, bonds, and other financing tools, illustrating the way things look in the future for meeting Texas' mobility needs.

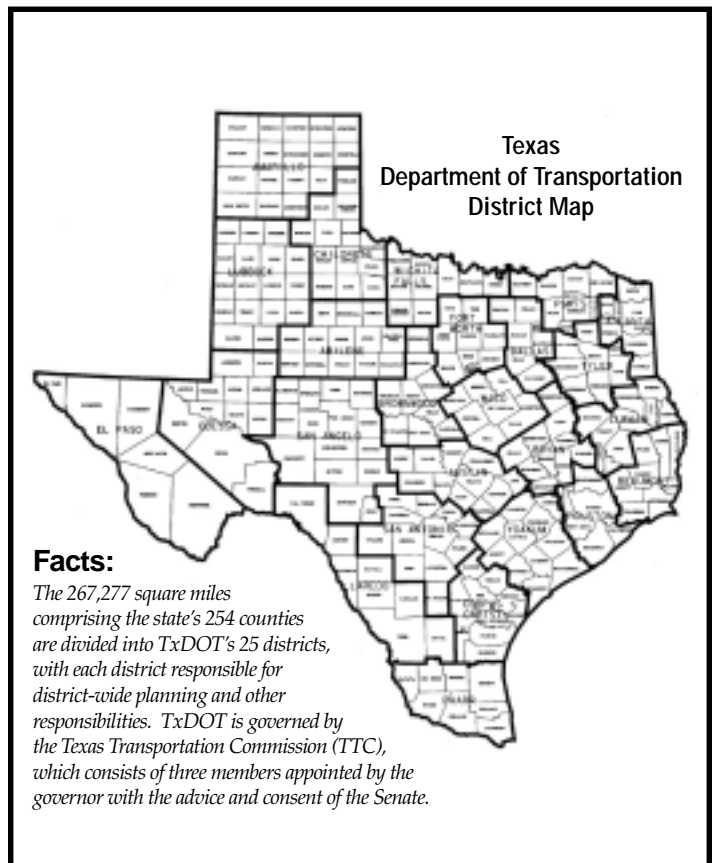
Many Texas leaders, rural and urban, have put transportation issues on their priority list, and data from TxDOT's strategic plan for fiscal years 2001-2005 confirms the importance of the issue to Texas. Although the concentration of people in the urban areas of Texas places great demands on the transportation system, bridges and road upgrades in rural areas serving smaller populations are every bit as vital, which makes the prioritizing of transportation projects difficult. Statistics show that:

- ♦ In 1984, 48 counties contained 80 percent of the state's population.
- ♦ In 2000, 40 counties do.
- ♦ Seven counties—Harris, Dallas, Tarrant, Bexar, Travis, El Paso, and Hidalgo—contain 50 percent of the state's population.

- ♦ The 10 largest counties contain 55 percent of the state's population.
- ♦ The 20 largest counties contain 69 percent of the state's population.
- ♦ Population growth is fastest in the existing major metropolitan areas, particularly along the IH 35 corridor.

Federal Acronyms to Follow The Yellow Brick Road, Or Steps From Need To Reality

Federal regulations found in the Transportation Equity Act for the 21st Century (TEA-21), enacted in 1998, require designated Metropolitan Planning Organizations (MPO) to plan projects. Each designated MPO must develop a Transportation Improvement Program (TIP), programs developed in conjunction with the Statewide Transportation Improvement Program (STIP). These are the preliminary steps that must be taken before approval from the FHWA and the Federal Transit Administration (FTA) for the allocation of federal funds for any project. STIP, a three-year financial plan, and the Unified Transportation Program (UTP), first developed in 1999, form the backbone of the planning stages in the state's highway network. UTP is used by TxDOT as a ten-year plan for transportation project development. By updating the UTP annually, the TTC and TxDOT are able to customize the UTP as many of the TEA-21 programs become better defined.



TxDOT's publication *From Concept to Concrete* shows the complexity of the process, one that requires coordination and compliance with governmental regulations.⁴ Generally, the process is as follows:

- ◆ Needs are identified: e.g., roads widened, bridges replaced. Government officials, developers, or private citizens in cities and counties initiate the dialogue.
- ◆ Federal or state funds are appropriated within one of TxDOT's 25 district offices throughout the state;
- ◆ Projects are chosen from several funding categories;
- ◆ Environmental effects, planning, engineering, detailed plan preparation, and other evaluations are coordinated between governmental entities and utility companies; and
- ◆ Bids and contracts are finalized.

Funding Options to Leverage Projects from the Legislature

The complications associated with moving great numbers of people whether the problems involve truck carriers at the border and throughout the state, or rural Texans who want to be able to safely get to town for medical emergencies or simply shop, like people in highly populated urban centers. Grain from the Panhandle travels to market, and products from the maquiladoras bulge at the border awaiting clearance for delivery to customers in the United States. These patterns of mobility and the transformation from population pattern to roadway system require an essential element—money. Since the implementation of the interstate highway system in the 1950s, the partnership between the federal government and the states have continued as a successful venture. But the huge population growth Texas has experienced requires more innovative financing by state lawmakers.

Texas voters approved several innovative financing methods to assist in removing impediments to building needed transportation projects in a timelier manner. One of these, the Mobility Fund, will supplement the traditional pay-as-you-go method of financing highway transportation. TTC will issue bonds for the construction of major highway projects that can then move ahead expeditiously. Construction on the state-maintained highway system, publicly-owned toll roads, or other public transportation projects will be financed from the Mobility Fund.

Financing Governor Perry's Trans Texas Corridor would be accomplished via tolls and user fees along with private financing, in partnership with the state; no final price tag as yet has been announced for the governor's plan. In his letter to TTC Commissioner John Johnson, Governor Perry stated that his plan would include:

- ◆ Exclusive development agreements to facilitate negotiations of the planned large-scale corridors with both private and public sectors;

- ◆ Toll equity options to connect TxDOT to both private and public capital sources;
- ◆ The Mobility Fund and its increased borrowing capacity; and
- ◆ Regional mobility authorities partnered with communities to generate and keep resources within those communities.

The governor's letter stated that while Texas experiences unprecedented growth, transportation experts and studies underline a decline of transportation mobility in the state. **"The U.S. Congress has designated IH 35, IH 69, and IH 27 as High Priority Corridors, but has not yet identified meaningful and long-term funding to build or improve these facilities,"** the governor asserted.⁵

While elections and money will determine the success or failure of the governor's far-reaching plan, other projects resulting from legislation passed during the 77th Legislature are underway. At a TTC meeting in March 2002, the evidence of some success was announced: the awarding of \$25 million from a total of \$50 million to improve roads in colonias in 19 border counties based on each county's population, with the remainder to be distributed according to a competitive evaluation. The funding is the initial installment of the \$175 million available to 23 counties along the Texas-Mexico border. The biggest award went to Hidalgo County, which received \$9.8 million for paving and drainage projects. El Paso County received \$5.4 million; Cameron County, close to \$2.4 million; Starr County, \$1.5 million; and Webb County, \$1 million. The second installment will be distributed according to a competitive evaluation.



*Where does the money come from?
First, the Federal Profile.*

Two basic premises must be stated to understand funding interrelationships in Texas:

Most federal transportation programs are reimbursement programs.

Federal transportation dollars are apportioned to states, and FHWA reimburses for expenditures on approved transportation projects in the state.

Federal-aid highway program funds are available through multiyear "contract authority" rather than yearly appropriation of "budget authority."

Each fiscal year, the state receives an overall obligation ceiling which covers all approved transportation programs except those that either are exempt or receive special consideration. The state can "mix and match" program funds as it chooses as long as it does not exceed the ceiling.⁶

Federal Transportation Funds for Texas (In Millions)				
Fiscal Year Federal	1998 Actual	1999 Actual	2000 Actual	2001 Actual
Guaranteed Highway Programs	\$1,623.40	\$1,983.50	\$2,163.30	\$2,260.20
Discretionary Highway Programs	\$0.00	\$28.00	\$23.80	\$813.90
Highway Safety Programs	\$11.90	\$27.10	\$29.40	\$29.10
Transit Programs	\$17.40	\$24.10	\$24.80	\$25.70
TOTAL	\$1,652.70	\$2,062.70	\$2,241.30	\$3,128.90

Source: Texas 21st Century: Federal Financing of Transportation in Texas, Legislative Budget Board based on data from U.S. Department of Transportation.

Four federal highway-related funding categories—guaranteed highway programs, discretionary highway programs, highway safety programs, and transit programs—comprise the bulk of federal highway funds received by Texas.⁷ Although safety programs are an important part of highway financing and are emphasized at both the state and federal levels, because this report emphasizes mobility and the financial task of building roadways, only the first two programs will be discussed.

Historically, guaranteed highway program funds are the most significant source of federal transportation funding received in Texas. These funds represent the highway construction and planning funds that provide the 90.5 percent guaranteed return assured in TEA-21. (As stated earlier, a portion of this funding is tied to improving air quality in the state in the reduction of transportation-related emissions.)

Discretionary highway funds are awarded competitively. Most of these funds are for specific projects, for example, the Corridor Planning and Development and Border Infrastructure program, for which Texas has received a total of \$40.3 million since the enactment of TEA-21 in 1998. This funding is limited to the border area between the United States and Mexico as well as NAFTA-related commercial traffic.

The money has flowed traditionally from the United States Treasury, which collects highway excise taxes by type: gasoline, diesel, gasohol, special fuels, tires, truck and trailer sales, and heavy-vehicle use. These revenues go into the Highway Trust Fund, the Highway Account, and the Mass Transit Account.

The states then report on gallons of motor fuel sold so that the federal government knows the amount to apportion. FHWA then apportions the respective motor fuel and related tax revenues among states after analyzing reports from the states.

Distribution of Funds

States are apportioned funds based on the following statutory formula:

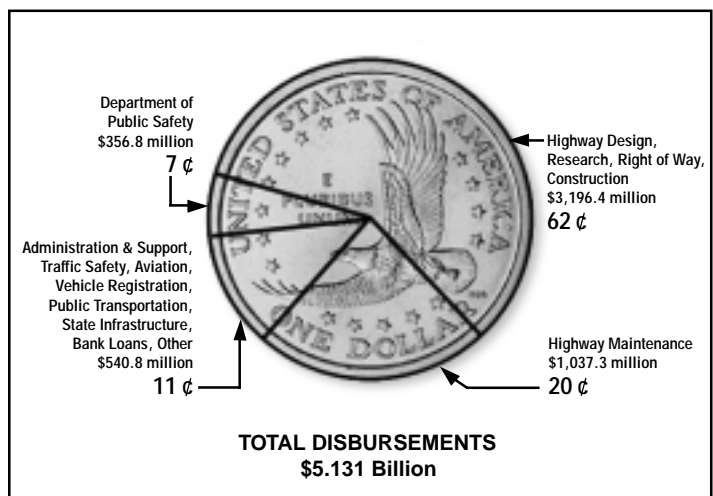
- ♦ 25 percent based on total lane miles of principal arterials (excluding the Interstate System);

- ♦ 35 percent based on total vehicle miles traveled (VMT) on lanes of principal arterials (excluding the Interstate System);
- ♦ 30 percent based on share of diesel fuel used on all highways; and
- ♦ 10 percent based on total lane miles of principal arterials divided by total population.⁸

The total amount of federal and state transportation dollars available to Texas for FY 2001 was \$5.131 billion, and was expended as follows (per dollar):

- ♦ 62 cents for highway design, research, right-of-way, construction, amounting to \$3.2 billion;
- ♦ 20 cents for highway maintenance, or \$1.04 billion;
- ♦ 11 cents for administration and support, traffic safety, aviation, vehicle registration, public transportation, state infrastructure, bank loans, other, amounting to \$541 million; and
- ♦ 7 cents for the Department of Public Safety (DPS), or \$356.8 million.⁹

Distribution of Total State Highway Fund Disbursements — Fiscal Year 2001





Funding sources, including federal and state funds, are:

- ♦ State revenues deposited into State Highway Fund No. 6 (Fund 6), the primary funding source for TxDOT, account for 53.6 percent of funds available for transportation projects;
- ♦ Federal reimbursement funds;
- ♦ General Revenue (GR) funds;
- ♦ Interagency contracts, consisting mainly of Oil Overcharge Funds;
- ♦ Texas Highway Beautification Account No. 71, a special account within GR; and
- ♦ Turnpike Authority Account No. 5038.

Slightly less than 75 percent of state motor fuel tax revenues, which are deposited in Fund 6, are dedicated for the construction, improvement, and maintenance of the state highway system while 25 percent is dedicated for schools. S.B. 1547, enacted by the 76th Legislature, made tax reporting requirements more stringent. The Comptroller of Public Accounts (CPA) estimated that these new requirements would increase General Revenue Available School Fund deposits by approximately \$7 million and Fund 6 deposits by more than \$20 million for the 2000-2001 biennium.¹⁰

Why can't roads keep up with growth?

Unfunded federal mandates, inflation, growth in demand, increasing allocations to nonhighway activities, and vehicle fuel efficiencies all impact Texas' ability to manage growth. TxDOT shares other revenue streams with certain county governments, including the vehicle registration program, from which TxDOT receives 65 percent of vehicle registration fees, after each county retains its minimum allocation. Over the past 12 years, state highway fund allocations to nonhighway activities, including the DPS, counties, and the CPA, among

others, have increased from 5 to 10 percent of Fund 6. Texas is one of only two states that does not assess an aviation fuel tax, and none of the approximately \$5.3 billion in motor vehicle sales taxes are deposited into Fund 6.¹¹

Innovative strategies to increase mobility through means other than funding initiatives, including redistribution or reallocation of taxes and fees.

Total taxes and fees paid on vehicles came to \$6.5 billion for FY 2000, according to a report from the CPA. Yet of that amount, only \$2.7 billion went to TxDOT, leaving \$3.8 billion going to other areas. This is one reason Texas has one of the lowest per capita expenditures of state highway dollars in the country, coming in at 47th. Texas falls in the middle of all states with regard to the tax rate on gasoline. Fuel

taxes bring significant revenue, but more than one-third goes to nonhighway uses, the third highest reallocation rate in the country. Public education is the largest nonhighway beneficiary (25 percent). The other major reallocation of Fund 6 revenue is for "continued expenditures" for DPS. The CPA receives \$25 million of the motor fuels tax, making up about one-seventh of that agency's budget.

Recently, the Senate Committee on State Affairs and the House Transportation Committee asked the TTC to develop options for raising revenue for transportation. Some options that the TTC presented include:

- ♦ Ending the vehicle registration fee subsidy of the GR Fund. These funds, approximately \$100 million, which go to counties, previously went to Fund 6.
- ♦ Finding other budget sources to pay for DPS functions that are not related to public roadway functions. The TTC estimates that approximately \$69 million of DPS's annual budget is unrelated to policing public roadways.
- ♦ Depositing revenue generated from transportation-related fees and taxes (\$204 million annually) into Fund 6 rather than placing it in GR, since the administration of motor vehicle inspection fees, driver license fees, and driver record fees are funded through Fund 6.
- ♦ Collecting state fuel taxes more efficiently to eliminate the need for the present methods of collecting from both the distributor and terminal levels. This could generate an estimated \$50 to \$75 million annually. (This plan is not favored by counties that rely on those taxes for income.)

These options presented by the TTC would raise \$425 to \$450 million annually.



In February 2002, Senator Shapiro, in her role as chair of The Senate Committee on State Affairs, requested that Director John Keel of the Legislative Budget Board (LBB) provide an actual ranking of states and a listing of the percentages of transportation revenues each state

allocates to transportation use. In addition to Texas, the states of California, Florida, New York, Ohio, and Pennsylvania were reviewed for their transportation-related taxes and fees, and the following information was submitted to the committee by the LBB.¹²

Highway User Funding of Road Transportation — 2000

State	State Hwy. User Revenue/Rd. Trans.	State Fuel Tax Revenue/Rd. Trans.	State Motor Vehicle/Motor Carrier Revenue/Rd. Trans.
California	60%	99%	35%
Florida	82%	89%	70%
New York	91%	99%	77%
Ohio	92%	95%	85%
Pennsylvania	96%	99%	91%
Texas	52%	77% *	32%
Total U.S.	82%	95%	65%

*The LBB qualifies the 77 percent attributed to Texas by saying the number should be 73 percent. FHWA counts certain items of spending in the state twice. The 73 percent is an estimated amount remaining for transportation purposes after one percent of gross fuel tax collections are subtracted and allocated to GR for the CPA's collection and after unclaimed refundable motor fuel taxes are subtracted. The remaining amount is then allocated, 25 percent to the Available School Fund and 75 percent to Fund 6 and the County and Road District Fund.

The LBB states that with regard to Texas, the FHWA does not consider motor vehicle sales taxes to be highway user revenues. These taxes are deposited directly to GR. The other selected states collect sales taxes on motor vehicle sales as part of their general sales tax. These are not highway user revenues according to FHWA and therefore are not included in their financial database.

Disposition of State Fuel Tax Revenues: Selected States — 2000 (Thousands of Dollars)

State	Fuel Revenues	Agency Collection Expense	Fuel Tax Revenue	State Roads	Local Roads	Mass Transit	Total Road Trans.	Fuel Tax Road Trans.
CA	2,951,375	19,522	2,931,853	1,622,401	1,263,235	41,044	2,296,680	99.20%
FL	1,601,263	15,193	1,586,070	1,063,938	258,913	104,832	1,427,683	89.20%
NY	1,402,067	0	1,402,067	672,427	284,726	426,893	1,384,046	98.70%
OH	1,453,777	3,462	1,450,315	636,209	733,478	15,556	1,385,243	95.30%
PA	1,699,090	13,484	1,685,606	1,540,099	145,439	0	1,685,538	99.20%
TX	2,992,991	27,483	2,965,508	2,246,631	7,300	52,292	2,306,223	77.10%
Total U.S.	31,748,807	225,721	31,523,086	19,588,981	9,125,111	1,320,228	30,034,320	94.60%

Composition of Motor-Vehicle/Motor Carrier Revenues Selected States — 2000 (Thousands of Dollars)

State	MV/MC Registration Fees	Driver License Fees	Certificate Title Fees	Motor Vehicle Sales Taxes	Fines and Penalties	Special License and Permit Fee	Misc. Receipts	Total MV/MC Receipts
CA	4,209,580	21,842	0	0	0	10,462	355,500	4,603,102
FL	392,722	45,292	120,782	0	6,528	379	398,725	1,007,222
NY	264,120	34,327	17,234	0	88,818	5,571	189,360	721,093
OH	399,305	14,111	13,392	0	2,306	0	172,011	631,722
PA	576,499	51,787	76,874	0	30,015	0	93,289	828,464
TX	901,964	102,082	67,432	2,538,157	2,091	8,080	118,635	3,738,441
Total U.S.	13,622,895	740,396	967,839	3,511,475	283,194	255,375	4,771,403	24,836,182

NOTE: Texas has a specific sales tax that is imposed on the purchase of motor vehicles; other states tax motor vehicles under their general state sales tax. Texas and Florida impose a motor vehicle rental tax that is not included in FHWA's data. Florida allocated 80 percent to transportation purposes. Texas collected \$166.1 million and allocated all collections to GR purposes.



Additional review of these findings will be conducted by the Senate Committee on State Affairs.

Safer and more reliable roads and highways and the elimination of bottlenecked highways are of great importance to Texans. Governor Perry's new transportation plan for roadways and railway corridors along with the work of the Senate Committee on State Affairs to review and address all aspects of transportation needs from fees to safety are reminders of the importance of the issue and the commitment of lawmakers to find solutions.

—by Dunya Bean, SRC

Photo courtesy of the Comptroller of Public Accounts

Endnotes

¹ *Tierra Grande*, Texas A&M University Real Estate Center, March 2000

² *The Perryman Report*, October 2001

³ *The Dallas Morning News*, November 8, 2001

⁴ *From Concept to Concrete*, TxDOT, 2000

⁵ Governor Rick Perry's letter to Commissioner John Johnson, January 30, 2002

⁶ *Moving Texas into the 21st Century, the Strategic Plan for FY 2001-2005*, June 1, 2000, TxDOT

⁷ *Texas 21st Century: Federal Financing of Transportation in Texas*, September 2001, LBB

⁸ *Ibid*

⁹ TxDOT <http://www.dot.state.tx.us>, Distribution of Total State Highway Fund Disbursements

¹⁰ *Fiscal Size-Up 2000-01*, LBB

¹¹ *Moving Texas into the 21st Century, the Strategic Plan for FY 2001-2005*, TxDOT

¹² Letter from John Keel, director of the LBB, to Senator Florence Shapiro, Chair, Texas Senate Committee on State Affairs

